

ORIGINAL

Decision No. 81960

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
SAN DIEGO GAS & ELECTRIC COMPANY for
authority, among other things, to
increase its natural gas rates and
charges for gas service to offset
and/or track higher gas costs oc-
casioned by gas rate increases or
proposed gas rate increase by its
supplier authorized by or pending
before this Commission to cover gas
exploration and development activities.)

Application No. 53778
(Filed January 8, 1973)

Chickering & Gregory, Sherman Chickering,
C. Hayden Ames, Donald J. Richardson, Jr.,
Attorneys at Law, by C. Hayden Ames, and
Gordon Pearce, Attorney at Law, for
applicant.

John W. Witt, City Attorney, by Robert J.
Logan, Deputy City Attorney, and Manley
W. Edwards, Utility Rate Consultant, for
the City of San Diego; Eddie R. Island,
Attorney at Law, for Southern California
Gas Company and Pacific Lighting Service
Company, interested parties.

Eugene S. Jones, for the Commission staff.

O P I N I O N

San Diego Gas & Electric Company (SDG&E) requests
authority to increase its rates and charges for natural gas
service by an amount sufficient to offset and/or track by advice
letter procedure the effects of gas cost adjustments resulting
from Commission authorization of increases requested by Southern
California Gas Company (SoCal) in its Application No. 53625.

SoCal proposes to finance its affiliates' gas
exploration and development activities by increasing its rates

on a uniform cents per therm basis. The proposed maximum annual increase to SoCal's customers (including SDG&E's Gas Department) would be \$40,000,000 including the \$2,419,000 authorized in Decision No. 80430. The maximum unit increase in charges based on SoCal's proposed \$40,000,000 limit for such activities using 1972 test year sales volumes would be 0.362 cents per therm. As a result of a continuing decline in gas supplies available to SoCal the \$40,000,000 per year authorization requested would yield higher unit charges of up to a maximum of 0.500 cents per therm. Increases in charges would occur from time to time after Commission authorization for individual projects and associated costs had been approved. The proposal also provides for downward adjustments.

Using 1972 test year volumes SDG&E proposes an offset increase of up to 0.362 cents per therm for interdepartmental and Office of Saline Water sales which are not subject to franchise taxes and where it would not be appropriate to consider uncollectibles. The 1972 test year offset for all other classes of sales would be at a rate of up to 0.387 cents per therm to include an allowance for uncollectibles and franchise taxes. SDG&E is asking that the limits on its revenue increases be equal to the maximum requested by SoCal, namely, up to 0.500 cents per therm for interdepartmental and OSW sales and up to .500 cents per therm multiplied by 1.02139 to cover franchise taxes and uncollectibles to the other classes of customers.

SDG&E's estimated maximum rate increase based on 1972 test year sales volumes to San Diego totals \$3,333,600, a 4.59 percent increase, \$2,071,800 of which represent sales to SDG&E's retail gas customers.

SDG&E requested that the effective date of their filings be the same as that of the corresponding SoCal filings. Their proposal also provides for reductions as a result of

reduced charges from SoCal. SDG&E also requested commensurate modification of Special Contracts Nos. 186 and 202 and an addition to the preliminary statement in their tariffs to implement their proposal for adjusting gas charges to flow through any increase or decrease in gas charges from SoCal.

After due notice, a hearing was held on this matter before Examiner Levander in San Diego on April 23, 1973, and the matter was submitted. The San Diego showing was an update of its showing in Application No. 53630, which involved the El Paso Natural Gas Company offset, for adjusted test year 1972 and estimated test year 1973.

The 1973 results of operation study shows the effect of the increase in revenues and expenses related to the El Paso increase for the full test year 1973. The actual increase authorized in Decision No. 81051 did not take effect until February 16, 1973. There would be a minor downward change in estimated net revenues since the revenue changes were designed to offset increased expenses and SoCal's increase went into effect on February 15, 1973.

At the hearing SDG&E indicated that it expected to recover the \$1,261,800 increase in interdepartmental charges to its electric and steam departments through Commission authorization of fuel adjustment clauses requested in Applications Nos. 52800 and 52802. Decision No. 81517 dated June 26, 1973 authorized the establishment of such fuel adjustment clauses for SDG&E.

Actual rate adjustments would depend on costs and credits incurred, delivery volumes to SDG&E and volumes available to SoCal with an upper limit of 0.500 cents per therm. The offsetting increases sought by SDG&E would not result in any increase in its net earnings or in its rate of return. It would be an offset of increases in gas costs to it.

The City of San Diego (San Diego) cross-examined SDG&E witnesses as to their gas exploration program; as to whether or not they propose to continue such programs; as to whether or not these activities would benefit SDG&E's California customers or to its stockholders; and as to its position in supporting SoCal's Application No. 53625. SDG&E's affiliate has engaged in limited gas exploration and development activities and anticipates that it may do so from time to time in the future. To the extent that any gas was developed as a result of SDG&E's exploration activities they would transport it to a pipeline company and endeavor to have it delivered to SDG&E directly or by substitution of gas from other sources. SDG&E believes that it would be to their benefit to support SoCal and obtain their portion of any additional amounts realized from SoCal's gas exploration and development activities; that it would be more effective to engage in these types of activity on the larger scale contemplated by SoCal as compared to piecemeal efforts. SDG&E's exploration affiliate has no agreement or proposed agreements for joint exploration or development activities with any SoCal subsidiary.

The Commission staff recommended that if SDG&E were granted the offset rate relief requested that recorded, adjusted, and estimated results of operations reports be filed by SDG&E to test the reasonableness of the rate of return; that if the rate of return with appropriate rate-making adjustments exceed the authorized rate of return the company should be ordered to make appropriate refunds based on a uniform cents per therm basis.

We conclude that SDG&E should be authorized to make advice letter filings requesting offsets to flow through changes in its gas costs based upon filings authorized in Decision No. 81898 dated September 25, 1973 in Application No. 53625.

SDG&E's advice letter filings should include recorded and adjusted gas division results of operations reports for the latest one year period available and an estimated year results of operation report beginning with the expected effective date of the requested adjustment to enable us to review the reasonableness of the gas divisions rate of return before authorizing changes in rates.

We will not adopt the staff's proposal for making refunds based on excessive rates of return computed on an adjusted past test year. This would constitute retroactive rate making.

Findings

1. Prior to this proceeding the operations of SDG&E were last comprehensively analyzed by the Commission in Decision No. 80432 dated August 29, 1972, in Applications Nos. 52800, 52801 and 52802. The test year used was 1972.

2. Decision No. 81051 dated February 14, 1973, in Applications Nos. 53630 and 53631 authorized SDG&E to increase its gas and electric rates to offset increases in gas rates from its supplier, SoCal, not considered in Decision No. 80432. These rates plus authorized adjustments to reflect tracking changes are now in effect.

3. A rate of return of 8.0 percent was found to be reasonable for SDG&E's gas and combined departmental operations in Decision No. 80432.

4. SDG&E's proposed rates for gas service are solely to offset increased costs which may result from future authorized increases in gas costs from its supplier, SoCal, to finance its gas exploration and development activities authorized pursuant to the requirements of Decision No. 81898 dated September 25, 1973 in Application No. 53625.

5. SDG&E's 1972 adjusted test year gas and combined departmental rates of return at proposed rates do not exceed 8.0 percent.

6. SDG&E's 1973 estimated gas department rate of return would be reduced to 6.00 percent if increased costs for purchased gas in the amount of \$3,191,000 were passed through without any increase. If the offset were granted the estimated gas department rate of return would be restored to the 7.33 percent estimated for 1973 without any increase in gas costs related to Decision No. 81898.

7. The effect on SDG&E's 1973 estimated combined departmental rate of return would be a decline from 7.44 percent to 7.19 percent if there was no offset to the \$3,191,000 increase. At proposed rates the combined departmental rate of return would increase to 7.32 percent. However, this does not give consideration to the fuel adjustment clauses in SDG&E's tariffs which would operate to restore the rate of return to its previous level.

8. A differential in unit gas offset rate increases caused by not assigning franchise fee payments or uncollectible expenses to OSW and interdepartmental sales as requested by SDG&E is reasonable.

9. SDG&E's proposal to increase its gas charges, subject to reduction, as shown in Exhibit C attached to the application is just and reasonable. The offset multiplier should be updated.

10. Recorded, adjusted, and estimated results of operations reports will be filed annually to enable the Commission to evaluate the reasonableness of SDG&E's gas division rate of return.

Conclusions of Law

Based upon the foregoing findings the Commission concludes that:

1. The authority sought by SDG&E shall be granted to the extent, and under the conditions, set forth in the order which follows, providing that

the offset will not result in a rate of return in excess of that previously authorized for the gas department.

2. Recorded, adjusted, and estimated results of operations reports should be filed annually by SDG&E to enable this Commission to ascertain that any offset authorized will not result in an excessive rate of return.

O R D E R

IT IS ORDERED that:

1. San Diego Gas & Electric Company is authorized to file from time to time revised tariff schedules with changes of rates, charges, and conditions so as to offset any change in rates filed for by its supplier, Southern California Gas Company, pursuant to authority granted in Decision No. 81898 in Application No. 53625, following the format shown in Exhibit C attached to the application with an updated multiplier for franchise taxes (not in excess of any limits imposed by the Commission) and uncollectibles. Such filing(s) shall comply with General Order No. 96-A. The effective date of the revised schedules shall be established by order(s) or resolution(s) of the Commission. The revised schedules shall apply only to service rendered on and after the effective date(s) of the revised schedules.

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2. San Diego Gas & Electric Company shall pass on to its gas customers any reduced rates, by advice letter procedures, complying with General Order No. 96-A to reflect any reduction in rates from Southern California Gas Company relating to the authorization granted Southern California Gas Company in Decision No. 81898 in Application No. 53625.

3. San Diego Gas & Electric Company shall file recorded, adjusted, and estimated results of operations reports for the previous calendar year and the future year by April 15 of each year, for the period that the authorization granted herein is in effect.

The effective date of this order shall be ten days after the date hereof.

Dated at San Francisco, California, this
2nd day of OCTOBER, 1973.

D.W. Holmes, Commissioner
Concurring:

William J. Quinn President
[Signature]
[Signature] Commissioners

In Decision No. 81898
I dissented on the
inclusion of gas exploration and development
costs being included in the rate base. Although
I still disagree with the majority's decision,
I feel that it would be unfair to penalize San
Diego Gas & Electric Co. by not allowing them to
pass on a cost which was forced on them by
the aforementioned decision.

Commissioner Vernon L. Sturgeon, being
necessarily absent, did not participate
in the disposition of this proceeding.

Commissioner J. P. Vukasin, Jr., being
necessarily absent, did not participate
in the disposition of this proceeding.